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Corporate responsibility and national institutions: A quantitative assessment

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Abstract

Corporate social responsibility (CSR) footprints in terms of relevant policies, plans and programs are evident at a global scale, but the level of national uptake and penetration differs, as countries differ considerably in terms of institutional efficiency. With this in mind, the purpose of this study is to investigate the relationship between CSR penetration and institutional conditions that shape and define the macroeconomic environment and development dynamics of countries. Building on Campbell's (2007) seminal framework on institutional parameters that facilitate effective CSR management, we offer new findings on the national specificity of CSR and additional perspectives for future research on the political economy of responsible business conduct.

Keywords: Corporate social responsibility (CSR); national institutions; national index; cross-country analysis.

JEL codes: Q50; Q58; Q59; F55; L25.

Introduction

Since the 1990s, corporate social responsibility (CSR), as an emerging area of study of organizational management has expanded and the umbrella-term of responsible business conduct has gained increasing attention at a global scale under the scope of mitigation, stewardship and sustainability concerns (Wood, 2010; Lozano 2012). Nevertheless, this continuously expanding sub-field of business literature pertains mostly to studies focusing at the micro-level within certain national environments while there is limited research at the macro-level (i.e. sectoral and cross-country assessments). In this respect, critical questions posed to policy-makers and scholars respectively are: why firms in some countries are more socially responsible than firms in other countries? What are the factors that affect CSR across countries? Which institutional parameters facilitate strong CSR penetration in a national economy and why the business sector in certain countries and regions exhibits comparatively weaker CSR penetration?

Our paper attempts to respond to such pressing questions and contribute to the scant literature of institutionally-bound CSR assessment. The study builds on the work of Campbell (2007) who set forth a series of assertions grounded on institutional theory on why firms engage in socially responsible behavior. We empirically examine such normative arguments referring to macroeconomic stability, competition, industrial self-regulation, regulatory quality as well as civic activism and operationalize them at the national level. Taking into consideration data availability for various institutional conditions as well as the limitations of cross-country CSR assessments, this study paves the ground for further in-depth investigation of the institutional conditions that define national CSR performance.

The rest of the paper is structured as follows: Section 1 outlines Campbell's theoretical model and propositions. Next, the data and methods are described followed by the presentation of results. Finally, the discussion of our findings and concluding remarks on opportunities for future research wrap up the paper.

Background

The institutional conditions of a country have been pinpointed for their enormous influence over organizational decisions or actions. The institutional environment has been characterized as the 'rules of the game' (Thelen, 1999), defining business actions and regarded as essential antecedent of the development potential of nations by enabling stability and facilitating market efficiency. Findings by Globerman and Shapiro (2002) as well as Harms and Ursprung (2002) indicate a positive relationship between foreign direct investment inflows (FDIs) and the institutional conditions of countries while a negative relationship of FDIs with the relative level of national corruption has also been documented (Habib and Zurawicki, 2002). In this respect, Barley (2007) criticizes management literature's lag in attending a broader understanding of the interaction between for-profit organizations and their multifaceted institutional environment.

The long debate on corporate responsibility has emphasized on the relation between social and financial performance (Cochran and Wood, 1984; Waddock and Graves, 1997; Margolis et al, 2007) in an attempt to signify CSR as a missing link in improving the financial bottom line and competitiveness (Kotler and Lee, 2005; Porter and Kramer, 2006; Vilanova et al., 2009). Despite viewed as a global issue endorsed over the years by international organizations and through transnational best-practice schemes, CSR penetration has exhibited increased variation across regions and countries (Welford 2003; 2005). Such variation pertains to the level as well as the

focus of corporate involvement (Marquis et al., 2007) something which is attributed to discrepancies in the institutional efficiency among countries. Yet, CSR scholars have been somewhat slow to investigate the effects of institutional conditions on responsible business conduct (Aguilera et al., 2007; Jackson and Apostolakou, 2010). It is only during the mid-2000s when the conceptual approaches in exploring the CSR construct have expanded to include the institutional lens to better understand nonfinancial aspects of corporate responsibility (e.g. Aguilera et al., 2007).

An increasing body of literature indicates that corporate responsibility is dependent on and embedded in a nexus of institutions that characterize the national identity of each country (Khanna et al., 2006). Placing CSR within the wider terrain of institutional mechanisms allowed the initiation of a more cross-disciplinary inquiry of responsible business conduct through different modes pertaining to political economy, political science, corporate law, sociology of organizations, cultural traits, religious norms and/or regional traditions and the relational pressures that stem from such institutional aspects. For instance, research evidence by Baskin (2006) and Jamali et al. (2009) echoes supporting arguments on the institutional interplay between state policies, private sector discretionary activities and civil society's activism in shaping the CSR penetration among national contexts.

Scholars are beginning to identify the critical importance of institutions in explaining CSR-specific aspects (Jamali and Neville, 2011), such as human resources management, environmental performance, nonfinancial accountability or community relations (Edelman and Suchman, 1997; Galaskiewicz, 1997; Guthrie and McQuarrie, 2004; Bansal and Roth, 2000; Hoffman, 2001; Sharma, 2000; Chen and Bouvain, 2009). Still, cross-country comparisons between CSR and national institutional settings are relatively rare (e.g. Jackson and Apostolakou, 2010), compared to other

fields business research (Gedajlovic and Shapiro, 1998; Williams and Aguilera, 2008). This is where the present study seeks to contribute by utilizing aspects of Campbell's framework of institutional conditions and empirically test them among a large pool of countries assessed in terms of CSR penetration.

Institutional conditions vis-à-vis CSR: Outlining Campbell's framework

In his seminal paper, Campbell (2007) builds his argumentation around a central question: taking into account the overarching profit-maximization principle and opportunistic tendencies of business entities, what conditions facilitate the socially responsible conduct of companies or why would a firm operate in socially responsible ways? According to his viewpoint, firms that act in a socially responsible manner are either not knowingly do anything that could harm their stakeholders or, when they do cause such harm, rectify it whenever it is brought to their attention.

Acknowledging that responsible corporate behavior varies across countries, Campbell draws on comparative political economy and institutional analysis literature to assert that that the way companies manage stakeholder demands and expectations is dependent on the institutions within which they operate. In this context, he formulates a set of propositions framing specific institutional conditions that affect firms' propensity to act in socially responsible ways.

First, Campbell denotes that companies with low profitability possess comparatively fewer slack resources to employ towards CSR practices. Even so, such is the case for firms experiencing financial losses and exhibit weak financial performance. In this context, focusing at the macro-level, he emphasizes the vital importance of the macroeconomic climate for CSR endorsement; macroeconomic

downturn and an unhealthy or unstable economic environment can have a direct effect on business profitability which in turn influences socially responsible behavior.

Second, he conceptualizes a curvilinear relationship between CSR and competitive conditions. Specifically, in markets where competition is either very intense (i.e. cutthroat competition) or very low (i.e. monopolies or monopsonies) companies will disregard CSR engagement and, contrarily, will have the inclination to act in socially irresponsible ways. Yet, under normal conditions of market competition, he asserts that companies are very concerned to preserve their public image and reputation as well as to safeguard customer loyalty and suppliers' trust. Thus, in such conditions firms are more likely to engage in CSR activities and endorse a socially responsible behavior.

Next, Campbell sets forth the effectiveness of the regulatory framework denoting its criticality in facilitating CSR behavior. According to his conception, well-designed, in terms of negotiation and consensus-building, as well as properly-enforced laws and regulations can mitigate social irresponsibility and effectively monitor and control business conduct. In parallel with state regulation, he goes further to point out the need for industrial organizations to develop their own behavioral standards and self-regulation mechanisms to ensure increased CSR penetration.

The fifth element in Campbell's framework refers to the role of civic engagement in terms of stakeholder groups, NGOs and/or advocacy organizations that act as 'watchdogs' and oversee corporate conduct in order to mobilize businesses to avert from alarming practices. By mobilizing media campaigns, drawing public attention, organizing demonstrations to exert pressure or appealing directly to firms such movements can minimize corporate irresponsibility and potentially contribute to incorporating CSR in corporate policies, plans and operations

Campbell goes on to indicate the role of education, trade/employee associations along with fruitful stakeholder dialogue in promoting the social responsibility of for-profit organizations. He concludes his paper by stressing: a) that the institutional conditions which set the ‘rules of the game’ for business conduct are not static but dynamically shift over time, b) that deregulation alone, in the verge of a globalized economy, does not ensure high CSR penetration but robust institutions are also necessary and c) that managerial attitudes towards CSR are critical and should be accompanied with institutional mechanisms that ensure that firms are actually behave in a socially responsible manner.

Campbell’s work paved the way for a more comprehensive investigation of comparative CSR trends and developments under the nexus of institutional structures and the efficiency of national institutional conditions. However, to date, there are no attempts to empirically test Campbell’s propositions. This is where our study seeks to contribute by investigating the relationship between CSR penetration and institutions that define the macroeconomic environment and the development dynamics of countries. The following section outlines the method and sample identification employed to achieve this goal.

Material and methods

Model specifications

The proposed model specification is of the form:

$$y = X\beta + \varepsilon$$

with y being a $(n \times 1)$ vector and X an $(n \times k)$ matrix; β and ε are $(k \times 1)$ and $(n \times 1)$ vectors respectively.

Dependent variable: National CSR index

Our dependent variable y is proxied by the national CSR index (NCSRI) obtained from Skouloudis (2014) and Skouloudis et al. (2016) who extend Gjøølberg's (2009) assessment method and utilize country data on subscription, inclusion or participation in sixteen international CSR initiatives, environmental and social standards, 'best-in-class' rankings and ethical investment stock exchange indices. Each one of these 'components' for national CSR appraisal indicates the number of organizations endorsing the specific CSR 'variable'. Skouloudis selects the year 2012 as the reference period for data capture and a 'cut-off' value of inclusion in at least four out of the sixteen CSR 'sub-indices' (i.e. national business sectors with presence in less than four components of the NCSRI were removed from the assessment). In this respect, 86 out of the 196 countries (Appendix 1), spanning from all geographical regions of the world are ranked in terms of CSR penetration, offering an encompassing worldview of the current CSR status.

Independent variables

X is the matrix including the explanatory variables of interest. Specifically, we consider five factors referring to distinct institutional conditions characterizing a national environment, in line with Campbell's conceptual framework.

Macroeconomic stability (MACRO) is expressed interchangeably in the model specifications presented below by a) the World Economic Forum's (WEF) third pillar of the Global Competitiveness Index (GCI) referring to the macroeconomic environment (Model 1), and b) by a composite factor consisting of five macroeconomic figures: inflation rate (%), public debt to GDP (%), budget surplus or deficit (as % of GDP), current account balance (% of GDP) and the national unemployment rate (%) (Models 2 and 3).

Competitive conditions (COMP) are expressed by the WEF's sixth pillar of the Global Competitiveness Index (GCI) referring to domestic and foreign competition and rated on a 1-7 scale.

Regulatory effectiveness (REG) is expressed by the following five indices encapsulating the robustness and quality of the national regulatory framework: i) The Ease of Doing Business index, ii) the Corruption Perception index, iii) pillar 1A of WEF's Global Competitiveness Index referring to public institutions along with iv) the Government Effectiveness and v) the Regulatory Quality indices of World Bank's Worldwide Governance Indicators (WGI).

Industrial self-regulation (INDUSTR) is proxied with the following WEFs GCI sub-indices pertaining to privately-established institutional arrangements: i) strength of auditing and reporting standards, ii) efficacy of corporate boards, iii) protection of minority shareholders' interests and iv) strength of investor protection.

Civic engagement (CIV) is expressed interchangeably in our model specifications presented below by a) the Civil Liberties sub-index of Freedom House's 'Freedom in the World' index (Model 2), and b) the 'Civic Activism' index of the International Institute of Social Studies (ISS) (Model 3).

To explore the extent to which country-level socioeconomic conditions moderate the relationship between institutions and CSR penetration, we controlled for human development, by employing the HDI index, and for income distribution through the GINI coefficient.

In this context, the following function was estimated:

$$\text{NCSRI} = f(\text{MACRO}, \text{COMP}, \text{REG}, \text{INDUSTR}, \text{CIV}, \text{HDI}, \text{GINI})$$

Findings

Table 1 presents the descriptive statistics of the variables considered while ordinary least squares (OLS) regression results – using three models with different variables – are reported in Table 2. In all three models there is no problem of normality.

In Model 1 only the explanatory variables are included; namely the statistical significant variables are those of macroeconomic environment (expressed by WEF's GCI pillar 3), competitive conditions, public institutions, the corruption perception index and government effectiveness. Facing increased heteroscedasticity we employed factor analysis and grouped variables in an attempt to cope with the issue. We devised three the factors, namely macroeconomic stability (consisting of the five aforementioned macroeconomic figures), regulatory effectiveness (derived from the five indices mentioned earlier which encapsulate the robustness and quality of the national regulatory framework) and industrial self- regulation (by utilizing WEFs GCI sub-indices pertaining to privately-established institutional arrangements).

In this way, Model 2 includes these three factors along with civic engagement expressed by the Freedom House's civil liberties proxy. Model 2, although better compared to Model 1, still faced problems of heteroscedasticity.

In Model 3 we first included all three factors and civic engagement expressed by the ISS's civic activism proxy and then we run the same specification with the addition of the control variables (HDI and GINI). The control variable HDI was found to be statistically insignificant with a value of $P=0.143$. Likewise, GINI presented P-values even higher and equal to 0.7 and it was omitted. Model 3 is better compared to Models 2 and 3 with no issues of heteroscedasticity.

The parameter estimates in the proposed regressions reveal that all model formulations have as explanatory variables the proxies pertaining to the macroeconomic conditions in the level of 5% in Model 1 (macroeconomic environment) and in the 10% significance level in Models 2 and 3 (macroeconomic stability factor). Regulatory effectiveness is statistically significant in all statistical levels; the variable industrial self-regulation is significant in all levels in Model 2 and in the level of 5% in Model 3. Still the proxies of these institutional conditions are correlated with the dependent variable with very low magnitudes. Civic engagement, expressed by civil liberties in Model 2 and civic activism in the other two specifications of Model 3, are statistically significant in all levels of significance. Civil liberties and HDI are negatively correlated with NCSRI. The variable of civic activism presents very high magnitudes and a positive relationship with the dependent variable. Comparing the last two model specifications it can be seen that the third model by using civic activism performs quite well with no indication of heteroscedasticity.

Table 1: Descriptive statistics of the variables considered

	Mean	Median	Std. Dev.	Minimum	Maximum	Obs
NCSRI	-18.32320	-24.21512	14.43203	-37.06495	20.64357	86
MACRO	-0.046512	-5380.500	99999.95	-326424.0	498723.0	86
REG	-0.023256	-34013.50	100000.0	-50511.00	723436.0	86
INDUSTR	0.012195	5912.000	99999.98	-267023.0	167964.0	82
COMP	4.5696	4.567	0.5936	2.6270	5.8901	84
CIVACT	0.538682	0.524000	0.053540	0.423000	0.679000	85
CIVLIB	2.732558	2.000000	1.745073	1.000000	7.000000	86
GINI	37.59500	36.50000	9.351476	23.00000	63.10000	80
HDI	0.786129	0.806000	0.103517	0.500000	0.943000	85

Table 2: OLS model results and diagnostics tests (P-Values in brackets).

Variables		Model 1	Model 2	Model 3	
Constant			-10.7278 [0.0000]	-119.17 [0.0000]	-110.53 [0.0000]
Macroeconomic environment		-2.8608 [0.0195]			
Macroeconomic stability			0.000014 [0.0983]	0.00001 [0.0945]	0.0000097 [0.0979]
Competitive conditions		-11.4954 [0.0000]			
Regulatory effectiveness			0.00008 [0.0000]	0.000034 [0.0000]	0.000047 [0.0032]
Industrial self-regulation			0.000034 [0.0019]	0.000021 [0.0161]	0.0000203 [0.0168]
Civic engagement	Civil liberties		-2.7138 [0.0000]		
	Civic activism			187.63 [0.0000]	204.583 [0.0000]
Corruption Perception Index		-0.1381 [0.0131]			
Public Institutions		5.5402 [0.0271]			
Government Effectiveness		0.49524 [0.0000]			
HDI					-22.383 [0.1429]
R square		0.58	0.62	0.76	0.772
Normality test (Jarque-Bera)		0.16796 [0.9194]	0.6513 [0.7221]	1.3645 [0.5055]	2.6459 [0.2664]
Heteroscedasticity test (Breusch-Pagan-Godfrey)		4,2473 [0.0018]	5.2363 [0.0009]	1.5296 [0.2021]	1.3232 [0.2637]
Heteroscedasticity test (Harvey)		2.2622 0.0563]	1.3549 [0.2575]	1.4982 [0.2112]	7.6859 [0.1744]
Heteroscedasticity test (Glejser)		4.1774 [0.0020]	4.7029 [0.0019]	2.4111 [0.1112]	1.8499 [0.1184]
ARCH effect test		2.4549 [0.1212]	8.3428 [0.0051]	0.08318 [0.7739]	0.000453 [0.9831]
Heteroscedasticity test (White)		2.3794 [0.0080]	3.0485 [0.0011]	1.45502 [0.1121]	1.42296 [0.2260]

A first observation on the findings is that in general they indicate partial support to Campbell's conceptual framework as it was operationalized in our assessment. Civic engagement appears to be the most important condition affecting CSR penetration. This should not come as a surprise since in a large body of the 'business in society' literature CSR is, by definition, a discretionary activity stimulated and spurred by the various expectations and demands of organizational stakeholder groups (e.g. Mitchell et al., 1997; Lozano, 2005; 2011). We expected a stronger influence on the role of macroeconomic environment and regulatory effectiveness on national CSR penetration but according to our model specifications they do not seem to play a critical role. Likewise, the insignificant impact of competitive conditions on national CSR requires further attention and in-depth empirical investigation.

Concluding remarks

Our findings offer some fruitful avenues for future research. One possible explanation of the statistical results may be that our sample contains data only for one year; a study that captures relevant data over a time series and employs panel data analysis could challenge or bolster our results. Further research could not only amend the aforementioned limitations but also include and test additional institutional conditions set forth in Campbell's framework by devising appropriate variables. Additionally, the variables employed in order to assess the institutional conditions may not perfectly reflect Campbell's conception and researchers may use different proxies with probably better fit.

Still, our study demonstrates that empirical research on the institutional parameters influencing CSR is a field that needs further investigation with the use of both refined statistical techniques as well as in-depth qualitative approaches that focus on country groups (e.g. high-low income countries) in order to explain regional discrepancies in

CSR penetration. Likewise, assessing through large cross country samples the moderating effects of informal institutions (e.g. cultural traits and religious beliefs) on CSR, could draw a better understanding of the tensions between the nexus of national institutions and socially responsible business behavior.

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Appendix 1: Country scores according to Skouloudis (2014) and Skouloudis *et al.* (2016) national CSR index

Country	NCSRI	Country	NCSRI	Country	NCSRI
1 Switzerland	20,64	30 Greece	-15,36	59 Mexico	-27,36
2 Sweden	19,50	31 Thailand	-17,79	60 Kazakhstan	-27,53
3 Finland	18,99	32 Romania	-17,98	61 Turkey	-27,78
4 Denmark	12,59	33 Malaysia	-18,99	62 Costa Rica	-27,84
5 United Kingdom	9,64	34 Hungary	-19,50	63 Ecuador	-28,06
6 Netherlands	9,27	35 Bulgaria	-19,68	64 Pakistan	-28,10
7 Norway	8,04	36 India	-20,64	65 Argentina	-28,37
8 Australia	6,17	37 Lithuania	-20,87	66 Bolivia	-28,37
9 Spain	4,21	38 Slovakia	-21,73	67 Philippines	-29,56
10 France	2,58	39 Taiwan	-22,02	68 Qatar	-29,65
11 Portugal	2,30	40 Croatia	-23,07	69 Belarus	-30,18
12 Singapore	0,77	41 Panama	-23,41	70 Tunisia	-30,26
13 Japan	-0,25	42 Slovenia	-23,83	71 Honduras	-30,43
14 Canada	-0,76	43 United Arab Emirates	-24,17	72 Kuwait	-30,65
15 Belgium	-1,22	44 Serbia	-24,26	73 Kenya	-30,79
16 Italy	-1,56	45 Sri Lanka	-24,39	74 Egypt	-31,45
17 Germany	-3,93	46 Latvia	-24,81	75 Ukraine	-31,66
18 Hong Kong	-5,40	47 Indonesia	-25,03	76 Georgia	-32,26
19 Ireland	-5,70	48 Estonia	-25,12	77 Russian Federation	-32,38
20 USA	-11,02	49 Jordan	-25,19	78 Oman	-32,50
21 Luxembourg	-11,12	50 Bahrain	-25,41	79 Nigeria	-33,13
22 Brazil	-11,74	51 Viet Nam	-25,55	80 Guatemala	-33,51
23 Colombia	-11,99	52 Mauritius	-26,04	81 Syrian Arab Republic	-33,70
24 South Korea	-12,13	53 Czech Republic	-26,25	82 Morocco	-33,94
25 Austria	-12,21	54 Iceland	-26,36	83 Iran	-34,00
26 South Africa	-12,58	55 Poland	-26,36	84 Bangladesh	-34,93
27 Israel	-13,57	56 China	-26,65	85 Venezuela	-35,44
28 Chile	-15,13	57 Peru	-26,66	86 Saudi Arabia	-37,06
29 New Zealand	-15,19	58 Uruguay	-26,98		